Killing the Public Banking Revolution in Venezuela

The Venezuela Hyperinflation Myth, Keeping Us from Transforming Our Economy

By Ellen Brown
Global Research, February 10, 2019
Region: Latin America & Caribbean, USA
Theme: Global Economy

Modern Monetary Theory (MMT) is getting significant media attention these days, after Alexandria Ocasio-Cortez said in an interview that it should "be a larger part of our conversation" when it comes to funding the Green New Deal.

According to MMT, the government can spend what it needs without worrying about deficits. MMT expert and Bernie Sanders advisor Prof. Stephanie Kelton says the government actually creates money when it spends. The real limit on spending is not an artificially imposed debt ceiling but a lack of labor and materials to do the work, leading to generalized price inflation. Only when that real ceiling is hit does the money need to be taxed back, and then not to fund government spending but to shrink the money supply in an economy that has run out of resources to put the extra money to work.

Predictably, critics have been quick to rebut, calling the trend to endorse MMT "disturbing" and "a joke that's not funny." In a February 1st post on *The Daily Reckoning*, Brian Maher darkly envisioned Bernie Sanders getting elected in 2020 and implementing "Quantitative Easing for the People" based on MMT theories. To debunk the notion that governments can just "print the money" to solve their economic problems, he raise the specter of Venezuela, where "money" is everywhere but bare essentials are out of reach for many, the storefronts are empty, unemployment is at 33%, and inflation is predicted to hit 1,000,000% by the end of the year.

Blogger Arnold Kling also pointed to the Venezuelan hyperinflation. He described MMT as "the doctrine that because the government prints money, it can spend whatever it wants . . . until it can't." He said:

> To me, the hyperinflation in Venezuela exemplifies what happens when a country reaches the "it can't" point. The country is not at full employment. But the government can't seem to spend its way out of difficulty. Somebody should ask these MMT rock stars about the Venezuela example.

I'm not an MMT rock star and won't try to expound on its subtleties. (I would submit that under existing regulations, the government cannot actually create money when it spends, but that it should be able to. In fact MMTers have acknowledged that problem; but it's a subject for another article.) What I want to address here is the hyperinflation issue, and why Venezuelan hyperinflation and "QE for the People" are completely different animals.

What Is Different About Venezuela

Venezuela's problems are not the result of the government issuing money and using it to hire people to build infrastructure, provide essential services and expand economic development. If it were, unemployment would not be at 33 percent and climbing. Venezuela has a problem that the US does not have and will never have: it owes massive debts in a currency it cannot print itself, namely US dollars. When oil (its principal resource) was booming, Venezuela was able to meet its repayment schedule. But when oil plummeted, the government was reduced to printing Venezuelan Bolivars and selling them for US dollars on international currency exchanges. As speculators drove up the price of dollars, more and more printing was required by the government, massively deflating the national currency.

It was the same problem suffered by Weimar Germany and Zimbabwe, the two classic examples of hyperinflation typically raised to silence proponents of government expansion of the money supply before Venezuela suffered the same fate. Prof. Michael Hudson, an economic rock star who supports MMT principles, has studied the hyperinflation question extensively. He confirms that those disasters were not due to governments issuing money to stimulate the economy. Rather, he writes,

> "Every hyperinflation in history has been caused by foreign debt service collapsing the exchange rate. The problem almost always has resulted from wartime foreign currency strains, not domestic spending."

Venezuela and other countries that are carrying massive debts in currencies that are not their own are not sovereign. Governments that are sovereign can and have engaged in issuing their own currencies for infrastructure and development quite successfully. A number of contemporary and historical examples were discussed in my earlier articles, including in Japan, China, Australia, and Canada.

Although Venezuela is not technically at war, it is suffering from foreign currency strains triggered by aggressive attacks by a foreign power. US economic sanctions have been going on for years, causing at least $20 billion in losses to the country. About $7 billion of its assets are now being held hostage by the US, which has waged an undeclared war against Venezuela ever since George W. Bush's failed military coup against President Hugo Chavez in 2002. Chavez boldly announced the "Bolivarian Revolution," a series of economic and social reforms that dramatically reduced poverty and illiteracy and improved health and living conditions for millions of Venezuelans. The reforms, which included nationalizing key components of the nation's economy, made Chavez a hero to millions of people and the enemy of Venezuela's oligarchs.

Nicolas Maduro was elected president following Chavez's death in 2013 and vowed to continue the Bolivarian Revolution. Like Saddam Hussein and Omar Qaddafi before him, he defiantly announced that Venezuela would not be trading oil in US dollars, following sanctions imposed by President Trump.

The notorious Elliott Abrams has now been appointed as special envoy to Venezuela. Considered a criminal by many for covering up massacres committed by US-backed death squads in Central America, Abrams was among the prominent neocons closely linked to Bush's failed Venezuelan coup in 2002. National Security Advisor John Bolton is another key neocon architect advocating regime change in Venezuela. At a January 28 press conference, he held a yellow legal pad prominently displaying the words "5,000 troops to Colombia," a country that shares a border with Venezuela. Apparently the neocon contingent feels they have unfinished business there.

Bolton does not even pretend that it's all about restoring "democracy." He said on Fox News,

> "It will make a big difference to the United States economically if we could have American oil companies invest in and produce the oil capabilities in Venezuela."

As President Nixon said of US tactics against Allende's government in Chile, the point of sanctions and military threats is to squeeze the country economically.

Killing the Public Banking Revolution in Venezuela

It may be about more than oil, which recently hit record lows in the market. The US hardly needs to invade a country to replenish its supplies. As with Libya and Iraq, another motive may be to suppress the banking revolution initiated by Venezuela's upstart leaders.

The banking crisis of 2009-10 exposed the corruption and systemic weakness of Venezuelan banks. Some banks were engaged in questionable business practices. Others were seriously undercapitalized. Others were apparently lending top executives large sums of money. At least one financier could not prove where he got the money to buy the banks he owned.

Rather than bailing out the culprits, as was done in the US, in 2009 the government nationalized seven Venezuelan banks, accounting for around 12% of the nation's bank deposits. In 2010, more were taken over. The government arrested at least 16 bankers and issued more than 40 corruption-related arrest warrants for others who had fled the country. By the end of March 2011, only 37 banks were left, down from 59 at the end of November 2009. State-owned institutions took a larger role, holding 35% of assets as of March 2011, while foreign institutions held just 13.2% of assets.

Over the howls of the media, in 2010 Chavez took the bold step of passing legislation defining the banking industry as one of "public service." The legislation specified that 5% of the banks' net profits must go towards funding community council projects, designed and implemented by communities for the benefit of communities. The Venezuelan government directed the allocation of bank credit to preferred sectors of the economy, and it increasingly became involved in the operations of private financial institutions. By law, nearly half the lending portfolios of Venezuelan banks had to be directed to particular mandated sectors of the economy, including small business and agriculture.

In an April 2012 article called "Venezuela Increases Banks' Obligatory Social Contributions, U.S. and Europe Do Not," Rachael Boothroyd said that the Venezuelan government was requiring the banks to give back. Housing was declared a constitutional right, and Venezuelan banks were obliged to contribute 15% of their yearly earnings to securing it. The government's Great Housing Mission aimed to build 2.7 million free houses for low-income families before 2019. The goal was to create a social banking system that contributed to the development of society rather than simply siphoning off its wealth. Boothroyd wrote:

> . . . Venezuelans are in the fortunate position of having a national government which prioritizes their life quality, wellbeing and development over the health of bankers' and lobbyists' pay checks. If the 2009 financial crisis

> demonstrated anything, it was that capitalism is quite simply incapable of regulating itself, and that is precisely where progressive governments and progressive government legislation needs to step in.

That is also where the progressive wing of the Democratic Party is stepping in in the US – and why AOC's proposals evoke howls in the media of the sort seen in Venezuela.

Article I, Section 8, of the Constitution gives Congress the power to create the nation's money supply. Congress needs to exercise that power. Key to restoring our economic sovereignty is to reclaim the power to issue money from a commercial banking system that acknowledges no public responsibility beyond maximizing profits for its shareholders. Bank-created money is backed by the full faith and credit of the United States, including federal deposit insurance, access to the Fed's lending window, and government bailouts when things go wrong. If we the people are backing the currency, it should be issued by the people through their representative government. Today, however, our government does not adequately represent the people. We first need to take our government back, and that is what AOC and her congressional allies are attempting to do.

*

Note to readers: please click the share buttons below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

This article was originally published on Truthdig.com.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including Web of Debt and The Public Bank Solution. A 13th book titled Banking on the People: Democratizing Finance in the Digital Age is due out soon. She also co-hosts a radio program on PRN.FM called "It's Our Money." Her 300+ blog articles are posted at EllenBrown.com. She is a frequent contributor to Global Research.

Featured image is from Alex Lanz / CC BY-NC-ND 2.0
